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September 13, 2010

## **AGENDA ITEM 3b**

### **TO: MEMBERS OF THE AD HOC RISK MANAGEMENT COMMITTEE**

- I. SUBJECT:** Office of Enterprise Risk Management / Chief Risk Officer
- II. PROGRAM:** Enterprise
- III. RECOMMENDATION:** Recommend to the Board of Administration approval of the establishment of the Office of Enterprise Risk Management and the position of Chief Risk Officer
- IV. ANALYSIS:**

In April 2009, CalPERS embarked upon a Governance Risk Management Initiative (the "GRMI" or the "Project"). The objective of the Project was to take a holistic view of risk, looking enterprise-wide at the existing governance and risk management structures and processes, to ensure that the organization has a systematic and disciplined approach to managing value and risk.

After a thorough review of CalPERS current risk architecture, and in light of the multifaceted risks faced by the organization, the Project Team recommends that the CalPERS Board of Administration (the "Board") approve the establishment of the Office of Enterprise Risk Management (OERM) and the position of Chief Risk Officer (CRO). A functional description of the SRO responsibilities is attached (Attachment 1).

Primary responsibility and accountability for the management of value and risk resides with each member of the organization's Executive Management, pursuant to the risk policy parameters and tolerances established by the Board. By virtue of the position, the Chief Executive Officer (CEO) is ultimately accountable for CalPERS management of risk. However, both the Board and Executive Management recognize the need for a centralized independent function to serve as a focal point of aggregation of reassurance, provide independent evaluations, and to help build common risk intelligence capabilities. These are the primary responsibilities of the Office of Enterprise Risk Management (OERM) and the Chief Risk Officer (CRO).

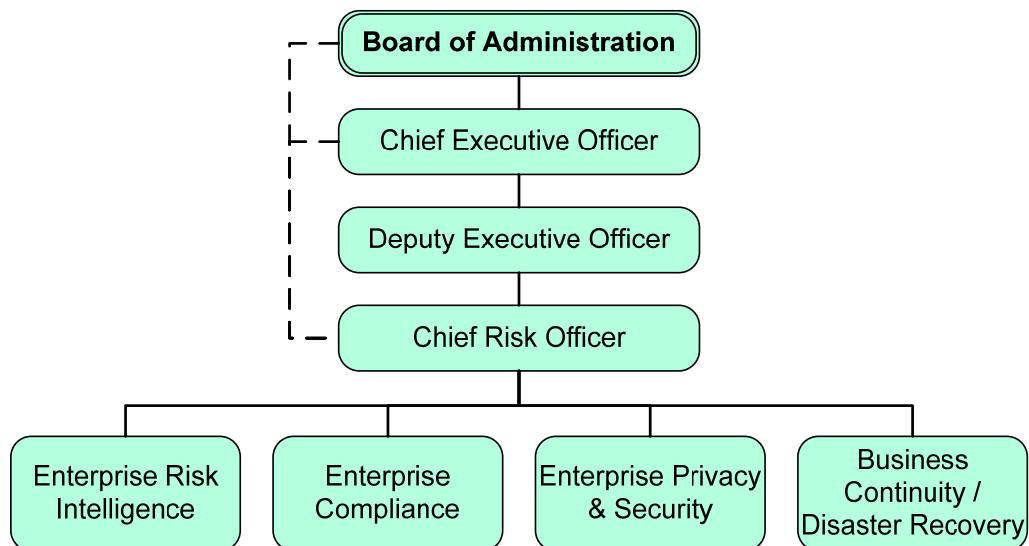
Members of the Ad Hoc Risk Management Committee  
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The OERM and CRO will provide an independent, cross-functional assessment of financial, compliance, legal, security, operational, reputational/political, strategic, and other risks. The CRO is accountable for providing reassurance that management's approach to risk is in alignment with CalPERS strategic goals and objectives, and, as necessary, escalating issues to the CEO and the Board. The CRO will also ensure that the risk management policy and principles set forth by the Board are followed, and the intended outcomes are achieved. Where practices or proposals exceed approved limits, the CRO may exercise a veto until such time as it is reviewed by Executive Management. If necessary, the CRO may escalate the matter to the Board or its committees.

The OERM strategically integrates management of risk and existing organization reassurance functions. It will create a competency center or working team of specialists in risk management, compliance, information security, and business management.

This integrated approach to CalPERS risk management will improve risk assessment and risk reporting, and will ultimately result in better decision-making. Alignment of reassurance functions will also directly improve the organization's ability to spot trends, as well as identify and address potential and existing instances of fraud and abuse.

The CRO reports administratively to the Deputy Executive Officer, Operations, and functionally to the CEO and the Board. The CRO is responsible for the functions of Enterprise Risk Intelligence, Enterprise Compliance, Enterprise Privacy and Security, and Business Continuity/Disaster Recovery.



**V. STRATEGIC PLAN:**

This recommendation supports Goal II of the Strategic Plan, which states that CalPERS is committed to fostering “a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.”

**VI. RESULTS/COSTS:**

The establishment of the OERM and the creation of the position of CRO will provide a focal point for implementing Enterprise Risk Management strategies, enhance CalPERS management of risks, and improve decision-making and enterprise governance, resulting in increased value to CalPERS members and stakeholders. Additional resources may be needed to fund the activities of the OERM and the position of CRO. However, establishment of the OERM will also create efficiencies and eliminate gaps and duplication through coordinated planning across reinsurance functions. The utilization of common methodologies, technology, and reporting will result in efficiencies and improved effectiveness in the organization’s risk and reinsurance activities.

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Attachment